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ROUTING:	DATE:
ADDI	6/7/8
ADDI	5 June
DDI	10 June
DDI	

(copy sent
5 June
(ADDI request
on MEAP) Bissell visit)

D/SOFA —

Assume you're preparing
response — — should
come through Gates.

DE

Central Intelligence Agency

DDI-

85-03081



Washington, D. C. 20505

21 JUN 1985

Dr. Ivan Selin
Chairman
American Management Systems, Inc.
1777 North Kent Street
Arlington, Virginia 22209

Dear Ivan,

I want to thank you for your report on the spring meeting of the Military-Economic Advisory Panel. The meeting appears to have been particularly lively, with much useful exchange of information. I particularly appreciate your endorsement of the increased commitment of resources to our Defense Industries Division. When we reorganized and strengthened this division two years ago, we knew that a good deal of basic research, recruitment, and training had to be accomplished. We think that this investment is now beginning to pay off.

Let me now address the suggestions you made in your letter.

-- The differences between CIA and DIA in military economic issues have been troublesome for us, but I believe that--with MEAP's help--we are making progress in resolving these issues. The inter-agency study on defense production now underway should help to narrow our differences. In addition, your suggestion that DIA document its work more fully will help both agencies.

-- I like the idea of forming a Military-Economic Review Committee to discuss outstanding methodological questions and differences in findings between the two agencies. We shall have to discuss how to organize such a committee, but to avoid redundant reporting, some sort of tie with MEAP seems warranted. MEAP could have a representative on a committee chaired by CIA/DIA, or perhaps MEAP could establish a subpanel to pursue these matters. [redacted] might serve as a MEAP representative on a Review Committee chaired by CIA/DIA, but a MEAP subpanel should be chaired by a MEAP member. I would like it to be a working level panel, yet with representation at a sufficiently high level to resolve problems that the committee identifies.

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-- On another issue that you raise, I think the modest additions we plan to the dollar and ruble papers are appropriate. First, the dollar paper will not do away with our traditional definition of defense outlays or our traditional comparisons. Rather, we will include a new section showing how those comparisons might change if additional activities that could be legitimately considered related to national security are added to both sides. This seems a useful exercise to us. On the ruble side, we will show how the Soviet defense burden would be different if these additional activities were included. In this year's ruble paper that section will be quite short, but in FY86 we plan to draft a concept paper on this topic that will include empirical measurements.

-- You urged us to issue more unclassified papers. In principle, we are prepared, on a selective basis, to publish non-controversial research on the Soviet and Chinese economies on an unclassified basis. We are watching for suitable candidates and when time and resources permit shall revise these papers for unclassified publication. Meanwhile, we shall continue to make much of the Agency's research on Soviet, Chinese, and East European economic and military-economic matters available through the publications of the Joint Economic Committee.

MEAP sessions, such as the last one, are of considerable value to both CIA and DIA. I thank both you and your colleagues on the panel for your work and your observations.

Sincerely,

7s/ William J. Casey

William J. Casey
Director of Central Intelligence

SOVA/DEIG: (13 Jun 85)

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Distribution:

- Orig - Addressee
- 1 - DCI
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EXECUTIVE SECRETARIAT

ROUTING SLIP

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI		X		
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3	EXDIR				
4	D/ICS				
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6	DDA				
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8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/OLL				
14	D/PAO				
15	VC/NIC				
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SUSPENSE		12 Jun 85 Date			

Remarks To #5: As in the case of previous letters from Selin on the MEAP, please prepare response for DCI signature.

Executive Secretary
4 Jun 85
Date

3637 (10-81)

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American Management Systems, Inc.

Ivan Selin
Chairman

May 31, 1985

The Honorable
William Casey
Director
Central Intelligence Agency
Washington, D.C. 20505

Dear Bill:

Your Military Economic Advisory Panel just completed its spring meeting, the best meeting that we have had in several years. I would like to start by thanking all concerned for the care and work that went into the excellent preparation. The first of our two new Panel members -- Steve Meyer from MIT -- was cleared in time for the meeting, and made many useful contributions. We expect the second member -- Ed Hewett -- to be on board in time for the fall meeting.

1. **CIA/DIA Differences:** One of the most interesting areas of progress concerned CIA/DIA interactions. We were very pleased to see that General Williams asked you to review differences between the two agencies on production quantities, and that SOVA has prepared a detailed statement of the differences. We will follow with interest the forthcoming Inter-agency Intelligence Memorandum on the topic. We also noted that the differences were much more sizable and affected many more weapons systems than one would have expected from the two Agencies' public statements, which suggested only occasional and minor divergences.

Differences between the two Agencies are not limited to estimates of production quantities, however. There are also significant differences in dollar pricing methodology, of whose main elements we were already aware. However, we (and many at CIA, too) were surprised to learn that DIA disputes the whole philosophy and methodology of CIA constant-ruble costing. And, of course, DIA estimates total Soviet military expenditure in current rubles by a methodology of its own that CIA does not attempt to match.

To help resolve some of these important differences and to make sure that the intelligence community gets the best value from its investment in military-economic analysis in both agencies, we are proposing two concrete steps:

a. I have written to General Williams requesting DIA to document its estimates of employment in and output of Soviet military machinery as well as of total Soviet military expenditure. Such documentation should be specific enough so that the estimates could be exactly replicated by outside analysts. These estimates and analyses -- particularly of labor force growth in the defense industry -- could support CIA analyses as well.

b. The Panel recommends to you and General Williams that CIA and DIA form a Military-Economic Review Committee to discuss all outstanding issues of military economic estimation and analysis. We suggest that the Committee meet regularly, perhaps on a monthly or quarterly basis, and issue regular reports addressed to the deputy director level in both agencies. The purpose of the Committee would be not just to see if existing differences can be reconciled but even more to keep both agencies fully abreast of changes in methodology and analysis their staffs may undertake. There should be no repetition of situations our Panel encountered of DIA and CIA being unfamiliar with basic elements of the other Agency's procedure. Moreover, each has valuable insights and experience to contribute that may improve the other's analytical effort. The Panel also takes the liberty of suggesting that [] now Visiting Professor at the Defense Intelligence College, be appointed the first chairman of the Review Committee. Because of his intimate acquaintance with the basic issues of the subject area as well as with the players on both sides, it appears to us that [] is an ideal candidate for that task.

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2. Untimely Changes in the Basis for Calculating Dollar and Ruble Costs: We reviewed in some depth the publication plans for the dollar and ruble papers, respectively, for this summer and fall. Frankly, we were quite disturbed at the prospects. We were told that the dollar estimate would be expanded to cover dollar costs of additional elements going considerably beyond the current definitions. There may be a rationale for some small expansion of the coverage of the dollar comparison to include activities that add to military capability but are not now counted in defense costs. However, there are weightier reasons, it seems to us, for believing that substantial changes now in the scope of the dollar comparison can cause nothing but trouble.

First the role of the dollar paper is to illuminate relative trends in U.S. and Soviet military activity, on a well-defined, comparable basis that does not change over the years. Anytime one makes a change in the basis, the entire historical series has to be recast according to the new definition. Furthermore, a change at this time, when U.S. spending is starting to exceed Soviet spending, would be seen as a transparent device to support larger U.S. defense budgets. Such a change will further erode the credibility of the military costing process, and leave the intelligence community open to charges of manipulation from both the Congress and the press. Finally, most of the issues raised regarding the scope of the defense measure are really issues of burden of resource costs in terms of each country's resource allocation pattern, and belong in the framework of ruble analyses.

The ruble paper, due in the fall, has two purposes. It serves as part of a comparison of trends in Soviet military development; it is also the principal vehicle for examining the burden on the Soviets of their military spending. We approve of the idea of expanding the coverage of Soviet defense expenditures to include nonconventional elements that

constitute a burden on the economy; we recommended such analysis in our 1983 review of the costing effort. However, we believe that such an expansion of coverage must be accompanied by a more fully thought out approach to analysis of the burden concept. Before sensible decisions can be made on what should be included, a clearer notion must be developed of what question the number is intended to answer.

We might add that the absolute level of burden at a point in time is not particularly illuminating. The time trend of burden, reflecting a well-defined aggregate of activities constant in scope over time -- is much more useful. The statement, "the Soviet burden is 20 percent," is difficult to interpret; the statement, "Soviet military expenditures are increasing faster than GNP" is meaningful both to policy makers and to analysts.

3. SOVA Reorganization and the Defense Industries Division: We are in no position to say whether the reorganization of SOVA will on balance be beneficial to the CIA analysis program, but it does solve one of the problems that we have noted in several past letters to you. Those analysts concerned with questions of military resources now have a home.

In light of this reorganization, Bob Gates asked us to look into the Defense Industries Division, to see if the increase in resources in that Division was producing the hoped-for results. We conducted a short and superficial, but comprehensive review of the Division. We found that the responsibilities of the Division have been increased in the last two years, that these increases in responsibility are sensible -- i.e. the additional questions that the Division has been asked to address are important questions, that the research program and management approach of the Division are appropriate to these responsibilities, and that the increase in authorized resources is consistent with the new charter.

In the past, this Division concentrated on costing the production quantities estimated by the forces people, and did interesting but fragmented studies of specific defense industries. Then the CIA made three determinations which impacted heavily on this Division:

- o The controversy on the causes of the Soviet military procurement slowdown highlighted the need for a better understanding of Soviet decision-making concerning military resources;
- o A much more sophisticated understanding was required of Soviet high technology industries, and the impact of problems and lags in these industries on their military capability;

and

- o Improved estimates of production of weapons systems were required.

The impact of these three determinations has fallen most heavily on the Defense Industries Division. Their increases in personnel, and the changes in management that we heard about, seem to us to be quite consistent with the expanded responsibilities of the Division.

4. Publication Policy: As we have discussed at length within DDI, the CIA is more and more dependent on outside scholars for analysis and review in areas where the Agency cannot expect to build a full, self-sufficient analytical capability. In order to foster good communications with academic and other outside communities, and to support recruiting, exchange of information and an unclassified publication policy are in the CIA's self interest. We are pleased to note an increase in conferences involving outside scholars, and wider use of outside experts in the review process. However, no progress is discernable in the development of the unclassified publication process.

An example of a potentially excellent unclassified paper is the tutorial on the Soviet military-industrial complex, which we reviewed at the meeting. We hope that this and other opportunities to publish and disseminate on an unclassified basis useful, non-policy analyses -- as opposed to projections -- will be energetically followed up.

* * * *

In closing, I would like to offer my personal observation. I think that the Panel is providing the most useful service that I have seen in my eight years of service, in part because we are receiving the greatest support, in part because our hosts have been particularly receptive, and in part because we have chosen thorny issues with a high analytical content, such as the CIA-DIA interactions. We are pleased at the chance to contribute, and look forward to a continuing, fruitful relationship.

Sincerely,

A handwritten signature in cursive script, appearing to read "L. M. ...", is written below the word "Sincerely,".

American Management Systems, Inc.

Ivan Selin
Chairman

May 28, 1985

LtGen. James A. Williams
Director
Defense Intelligence Agency
The Pentagon
Washington, D.C. 20301

Dear General Williams:

I would like to express the appreciation of the DCI's Military Economic Advisory Panel for the extensive level of participation on the part of the DIA people at our Spring meeting. There were certainly a number of enticing glances offered to us of DIA analyses, which whet our appetite for more information. On the one hand, a number of deep conflicts between CIA and DIA analysts have surfaced in the last year, and we may be of some help in resolving or at least delineating the differences. On the other, we see places where DIA has broached analytic areas that can enrich the entire community, but which must be subjected to peer review and explanation before they can be exploited.

An example of the latter situation is the work that DIA is performing in analyzing the labor force in the defense industries. This is work which may make a unique contribution to a major set of military economic studies. But it needs fuller documentation, to put to its full potential use.

As an example of the former, I mention the radical differences between CIA and DIA concerning the growth of procurement spending, measured in ruble terms, over the last eight years. Many sources of the differences can be cited -- differences in procurement quantities; conceptual differences in constant versus current ruble pricing; methodological differences between a building block approach and a residual approach. In both these cases it is now absolutely essential to home in on these differences, identify quantitatively the effects of the various differences, and enable third parties to reproduce the calculations. Until this is done, the two agencies will continue to act at cross purposes, to the embarrassment of all members of the intelligence community, and the work of the DIA analysis will be largely squandered.

DIA staff were prepared to discuss some of the bases for their calculations at our meetings, but because of scheduling problems the discussions did not take place. MEAP members will follow up on these informal discussions, but a much more formal and systematic program is necessary. The Panel would therefore like to make two recommendations:

1. The Panel recommends to you and Mr. Casey that DIA and CIA form a Military-Economic Review Committee to discuss all outstanding issues of military economic estimation and analysis. We suggest that the Committee meet regularly, perhaps monthly or quarterly, and issue regular reports addressed to the deputy director level in both agencies. The purpose of the Committee would be not just to see if existing differences can be reconciled but even more to keep both agencies fully abreast of changes in methodology and analysis their staffs may undertake. There should be no repetition of situations our Panel encountered of DIA and CIA being unfamiliar with basic elements of the other agency's procedure. Moreover, each has valuable insights and experience to contribute that may improve the other's analytical effort. The Panel also takes the liberty of suggesting that [] now visiting Professor at the Defense Intelligence College, be appointed the first chairman of the Review Committee. Because of his intimate acquaintance with the basic issues of the subject area as well as with the players on both sides, it appears to us that [] is an ideal candidate for that task.

2. We would urge DIA to write up and publish a complete documentation of sources and methods underlying the estimates of labor force and output growth in military machinebuilding as well as of the estimate of total military expenditure in current rubles. Such documentation should be specific enough so that the estimates could be exactly replicated by outside analysts. [] will make specific suggestions to [] on how this might best be done.

As you can see, a great deal of benefit would be served through a full documentation of the analyses and sources of data that DIA uses in its military economic work. A further benefit, speaking quite frankly, would accrue to the DIA analysts themselves, since the sources and processing of data in the various stages are highly compartmentalized.

If the documentation is prepared in a timely fashion, i.e., before the end of the summer, the MEAP will be able to respond with useful comments and an appreciation of the potential of the residual techniques, at our October meeting. In the absence of such documentation, the utility of the DIA analyses will be greatly restricted, and the credibility of the results will be seriously reduced.

We hope that these comments are useful to you, and look forward to discussing this documentation project with your staff.

Sincerely,



cc: Director, C.I.A.